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**NEWS RELEASE**

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**OFI ADOPTS STATEMENT ON SUBPRIME MORTGAGE LENDING**  
*Guidance addresses risks associated with products and lending practices*

FRANKFORT, Ky. (Sept. 18, 2007) – The Kentucky Office of Financial Institutions (OFI) has adopted a Statement on Subprime Mortgage Lending in order to address emerging risks associated with certain subprime mortgage products and lending practices.

This regulatory guidance covers underwriting standards, management practices and consumer protection provisions that mortgage originators should follow when marketing and selling certain adjustable rate mortgage (ARM) products to subprime borrowers.

An ARM provides low initial payments based on a fixed introductory rate that, a short time later, adjusts to a variable rate for the rest of the loan term. These products are often offered to subprime borrowers, who are borrowers with less-than-prime credit scores. Regulators are concerned this scenario may present risks to both borrowers and lenders if the adjustment results in substantially higher payments that exceed the borrower's ability to pay.

"This Statement on Subprime Mortgage Lending addresses concerns we have identified in subprime mortgage markets," said OFI Executive Director Cordell Lawrence. "It is intended to promote consistent underwriting and consumer protection standards across the country. We believe a coordinated effort among federal and state regulatory agencies is necessary to provide consistent and effective supervision of the mortgage industry."

OFI's statement is modeled on the one released by several federal financial regulators on

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June 29. Because the federal statement applies only to insured financial institutions and their affiliates, the Conference of State Bank Supervisors (CSBS), of which OFI is a member, as well as the American Association of Residential Mortgage Regulators (AARMR) and the National Association of Consumer Credit Administrators (NACCA), developed a parallel statement to apply to independent mortgage lenders and brokers not regulated by the federal agencies.

While the state and federal subprime statements are substantially the same, the state version addresses issues particular to nondepository mortgage lenders and brokers who originate loans but do not hold them in portfolio. In Kentucky, such lenders are generally licensed and regulated by OFI.

“State supervision of the residential mortgage industry is continually evolving to keep pace with the rapid changes occurring in the marketplace,” Lawrence said. “This statement will enhance the checks and balances OFI already has in place for regulating the mortgage industry.”

Beyond the Statement on Subprime Mortgage Lending, state regulators also plan to issue examination guidelines for state supervisors to use in evaluating state-licensed mortgage lenders’ compliance with the new requirements on lending to subprime borrowers. These guidelines are being developed as examination standards to assist state regulators in determining proper compliance with the subprime statement as well as with the Guidance on Nontraditional Mortgage Product Risks that OFI issued in November 2006. The examination guidelines also will be published as a public document to guide mortgage providers and their auditors in reviewing transactions.

The full text of the Statement on Subprime Mortgage Lending can be found on OFI’s Web site at [www.kfi.ky.gov](http://www.kfi.ky.gov).

OFI is an agency of the Department of Public Protection in the Environmental and Public Protection Cabinet. It licenses, charters and regulates the activities of state-chartered/licensed depository and nondepository financial institutions. OFI’s mission is to serve the public through effective and efficient regulation that promotes consumer confidence and economic growth.